



DEPARTMENT OF DEFENSE
INSPECTOR GENERAL
WASHINGTON, D.C. 20301

21 DEC 1983

**MEMORANDUM FOR SECRETARY OF THE ARMY
SECRETARY OF THE NAVY
SECRETARY OF THE AIR FORCE
ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT INSPECTOR GENERAL FOR AUDITING,
OIG, DOD**

**SUBJECT: Contract Audit Policy Memorandum Number 1 -
Relationships Between Contract and Internal Audit
Organizations**

REFERENCES: (a) DoD Directive 5106.1, "Inspector General of
the Department of Defense," March 14, 1983
(b) DoD Directive 5105.36, "Defense Contract
Audit Agency," June 8, 1978
(c) DoD Directive 7600.2, "Audit Policies,"
August 7, 1978
(d) DoD Instruction 7600.3, "Internal Audit in
Department of Defense," January 4, 1975

A. PURPOSE

This memorandum is issued pursuant to paragraph G.1 of reference (a) and provides interim guidance pending revision to references (c) and (d). The memorandum expands on existing policies and provides more definitive procedures for requesting audit assistance by contract or internal audit organizations in connection with their reviews of DoD procurement operations and audits relating to programs and operations of the Department of Defense. In addition, it provides guidance on the Defense Contract Audit Agency (DCAA) relationships with the Inspector General, DoD; internal audit; internal review; and other similar organizations.

B. APPLICABILITY

The provisions of this memorandum apply to all DoD components authorized to have a contract or internal audit

organization. The provisions also apply to the audit organizations of the military exchange systems and the internal review activities of DoD.

C. BACKGROUND

The Inspector General, DoD audit mission, authority, and responsibility are enumerated in reference (a). As part of the responsibility for conducting audits relating to the DoD programs and operations, the Inspector General, DoD shall perform audits of DoD procurement and contracting functions.

The DCAA mission, as set forth in reference (b), is to provide accounting and financial advisory services regarding contracts and subcontracts to all DoD components responsible for procurement and contract administration. The advisory role of the DCAA auditor is set forth in reference (c). Reference (d) provides that the contract auditor may provide assistance to the internal auditor under certain circumstances; reference (a) gives the Inspector General, DoD the authority to request assistance as needed from other audit, inspection and investigative units of DoD components.

D. POLICY

1. **General.** This memorandum expands upon and clarifies existing policies in the relations between DCAA and internal audit organizations and the Inspector General, DoD. The Government's interest will be served by full cooperation and exchange of information with the Inspector General, DoD and between other contract and internal audit organizations. This will ensure the efficient use of our limited audit resources.

2. Areas of Responsibility

a. Inspector General, DoD. The Inspector General, DoD and the internal audit organizations are responsible for, among other things, auditing the procurement function within DoD. That responsibility includes both the internal audit of the DoD management of the procurement function and the review of contracts and contractors as they affect the procurement function. They have a key oversight role in evaluating the efficiency and effectiveness with which procurement and contract administration functions are managed by their respective Services. In performing these functions, the audit organizations may require DCAA to provide fact-finding assistance.

b. Defense Contract Audit Agency. Defense Contract Audit Agency has the responsibility of providing contract audit service for the DoD components which perform procurement and contract administrative functions. This assistance is usually advisory in nature. Also, DCAA provides audit assistance on request for the review and evaluation of procurement and contract administrative functions within DoD. This assistance will be on a non-reimbursable basis and is usually fact-finding in nature.

3. Audit Assistance

a. Planning a Request for Contract Audit Assistance. Defense Contract Audit Agency should be provided copies of internal audit annual program plans when significant contract audit assistance is anticipated. Careful consideration should be given to the requirement for assist contract audit service at the contractor's site. Arrangements will be made with DCAA when internal audit requirements have been defined. To expedite the process, preliminary telephone contact is encouraged between the requesting audit organization and the related DCAA office(s) followed up by a written request. Sufficient time should be allowed to coordinate the audit request and schedule the work. Any organizational level of DoD audit organizations can request such assistance.

b. Preparing a Request for Contract Audit Assistance. Requests for DCAA audit assistance will be submitted in writing to the appropriate DCAA organizational level to avoid any misunderstandings. The request should provide enough information so that the DCAA auditor will fully understand the purpose, scope, and objective of the audit area. This will enable the DCAA auditor to determine the audit effort required. -

c. Responding to Requests for Contract Audit Assistance. Defense Contract Audit Agency will confirm all requests in writing. If DCAA cannot perform all of the assist work, the confirmation should specifically state what portion(s) can not be performed and the reasons therefore. If DCAA refuses requests for audit assistance without adequate justification, it will be the requester's responsibility to provide applicable correspondence to the Assistant Inspector General for Audit Policy and Oversight, Office of the Inspector General (OIG), DoD for further action. All related requests, confirmations and reports will be selectively monitored by the Inspector General, DoD office.

d. When Contract Audit Assistance Can Not Be or Is Not Provided. In certain situations, the circumstances or the nature of the information required, may make it impractical or inappropriate for the DCAA auditor to comply with the request for audit assistance. In these cases alternative arrangements must be considered. These ground rules apply:

(1) Internal auditors are not precluded from reviewing contractors' books and records under the following circumstances:

(a) When the information required would place DCAA in a position of reviewing, analyzing, or reporting on procurement personnel which might hamper its relationships with the Procurement Contracting Office (PCO) or Administrative Contracting Office (ACO).

(b) When DCAA is unable to render such assistance in a timely manner because of other priorities, it will notify the requesting audit organizations and DCAA will be responsible for making the necessary administrative arrangements for access to those records needed to complete the internal audit.

(2) Internal auditors will have complete access to DCAA contract audit working papers, reports and files to the maximum practicable extent for their use in audits of DoD procurement, contract administration, or related functions.

4. Internal Audit Organization Assistance to Defense Contract Audit Agency. Although the policy guidance deals with internal audit organizations requests for DCAA services, it also provides for DCAA to request assistance from the internal audit organizations as needed. Internal audit assistance may be required in those instances when contract audits involve work at a Defense installation or remote location where the nature of the work, proximity of an internal audit office, or other factors make it more practical or economical for the contract auditor to obtain assistance from an internal auditor. Requests for audit assistance from Army internal review elements by DCAA should be addressed to the appropriate Army commander.

5. Resolving Contract Audit Assistance Problems. If audit interface problems develop between local or regional DCAA offices and internal audit offices at these locations, the contract/internal audit organization(s) should notify the appropriate office in their headquarters and explain the problem, provide pertinent facts, and recommend a course of

action to resolve the matter. If the circumstances warrant, designated staff member(s) should meet to resolve the problem. Efforts should always be made to resolve interface problems at the lowest level. In the event an interface problem cannot be resolved, the matter (fully documented) will be referred by the requesting organization to the Assistant Inspector General for Audit Policy and Oversight, OIG, DoD for further action and resolution.

6. Inspector General, DoD Request for Assistance. The Inspector General, DoD may request assistance, as needed, from other audit, inspection, and investigative units of DoD components. In such cases, assistance shall be requested through the head of the DoD component concerned. The Inspector General, DoD has access to all records, reports, investigations, audits, reviews, documents, papers, recommendations, or other material available to any DoD component. Audit assistance problems will be handled on a case-by-case basis pending development of standard procedures.

7. Access to Records. If the PCO or ACO deny either DCAA or the internal audit organizations access to contractor records, the requesting agency will document the matter and refer the problem to the Assistant Inspector General for Audit Policy and Oversight, OIG, DoD for further action and resolution.

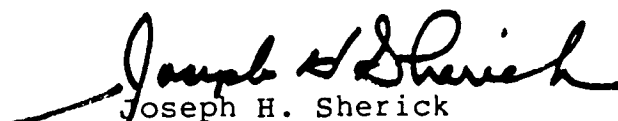
8. Exchange of Information. Each audit organization should have access to each other's material. There should be a direct interchange of copies of audit reports, programs, instructions and other material related to audit methods and techniques. The internal audit organizations will provide DCAA a copy of their final report which incorporates the contract audit assistance. Other reports should be provided on a request basis. Defense Contract Audit Agency will honor request for reports relating to areas of procurement and contract administrative matters and will provide the copies directly to the Inspector General, DoD or audit organizations. These include reports on estimating systems, purchasing systems, property management systems, operational audits, etc.

E. ACTION REQUESTED

Defense Contract Audit Agency and the internal audit organizations will comply with the policies set forth herein, and will provide additional guidance to ensure effective implementation of this policy memorandum.

F. EFFECTIVE DATE

This Contract Audit Policy Memorandum is effective for two years from its date of issue or until incorporated into a DoD directive or instruction.



Joseph H. Sherick
Inspector General